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Supreme Court, U.S.
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No. 03-1049

IN THE
Supreme Court of the United States

IDAHO POTATO COMMISSION,

Petitioner,

v.

M & M PRODUCE FARM & SALES
D/B/A M & M PRODUCE, M & M PACKAGING, INC.,
MATTHEW ROGOWSKI AND MARK ROGOWSKI,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

REPLY BRIEF

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REPLY BRIEF

In the decision below, the United States Court of Appeals for the Second Circuit held that, under the Lanham Act as well as the patent laws, questions of contract abrogation are decided according to a judicial "balancing test" that it claimed was "first articulated" by this Court in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969). Pet. App. 10a. The petition demonstrates that the ruling below squarely conflicts with *Lear* and *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979), which apply the demanding standards of conflict preemption to determine whether federal intellectual property laws prohibit the enforcement of state law contract rights, Pet. 10-13. Unable to defend the decision below on its own terms, respondents attempt to hide from it. Respondents remarkably attempt to recast the Second Circuit's decision as solely applying the unconscionability doctrine of *state* contract law – even though (as respondents admit) the Second Circuit never mentions the unconscionability doctrine, or for that matter any rule of state law or any state court decision. By pretending that the Second Circuit did not decide any federal question, respondents ignore the decisional conflicts identified in the petition, for which they have no answer.

This Court's review is imperative because the conflicts are stark, and the legal and practical effects of the Second Circuit's aberrant decision threaten the integrity of the certification mark system under the Lanham Act, 15 U.S.C. §§ 1501 et seq. By applying an *ad hoc* judicial balancing test weighing purported public interests against private contractual interests – an analysis wholly foreign to traditional preemption doctrine – the Second Circuit has improperly invoked federal law to circumscribe the domain of state contract law. In declaring no-challenge provisions in certification mark licensing agreements to contravene an asserted public interest of licensee "competition," the Second Circuit substituted its idiosyncratic view of the public interest for the clearly stated federal objective of the Lanham Act –

namely, the promotion of competitive product markets by granting and protecting intellectual property rights, and by regulating the use of marks to prevent public confusion and deception. The Second Circuit's decision will weaken the ability of certification mark owners to protect the quality of the products and services bearing their marks and hurt consumers who depend upon the product information created by a vital certification mark system. For these reasons, this Court's review is warranted.

I. THE DECISION BELOW CONFLICTS WITH THIS COURT'S LONGSTANDING CONFLICT PREEMPTION DOCTRINE.

Respondents contend that the decision below does not conflict with this Court's precedent because allegedly the Second Circuit concluded that the no-challenge provision in the license agreement of the Idaho Potato Commission ("Commission") was an "unconscionable" "term in a contract of adhesion." Opp. 8. Their assertion is utterly unfounded. Nowhere in the Second Circuit's opinion do the words "contract of adhesion" or "unconscionable" even appear. See Pet. App. 1a-20a. Respondents concede as much, noting that these terms are "not explicitly stated in its opinion." Opp. 8. More to the point, the Second Circuit never adverts to any state law rule of decision, or even cites a court decision applying state law. Furthermore, if the Second Circuit were applying state law, it would be expected to identify *which* State's law it was applying; there is certainly no mention in the decision of Idaho law, which governs disputes arising out of the Commission's licensing agreements. 2d Cir. J.A. 451 ¶ 14; *id.* at 155 ¶ 14 (same) (license agreements deemed to have been made in Idaho).

To the contrary, the Second Circuit repeatedly stated that it was applying the "*Lear* balancing test" – a federal rule of decision. Pet. App. 9a-13a. State law unconscionability doctrine is not "a balancing test first articulated in *Lear*." *Id.* at 10a. Review is warranted precisely because the federal

rule of judicial balancing, which the Second Circuit ascribed to *Lear*, is contrary to the actual rule of *Lear* and subsequent cases, which employ traditional conflict preemption doctrine in holding that state contract law will be displaced by federal law only when "overriding federal policies would be significantly frustrated." *Lear*, 395 U.S. at 672-73; *Aronson*, 440 U.S. at 262; see also *Studiengesellschaft Kohle, M.B.H.* v. *Shell Oil Co.*, 112 F.3d 1561, 1567 (Fed. Cir. 1997); *Naimie* v. *Cytozyme Labs., Inc.*, 50 U.S.P.Q.2d 1348, 1351 (10th Cir. 1999). The Second Circuit's decision opens a conflict with this Court and other courts of appeals on a fundamental question of preemption under federal intellectual property laws, and this Court's intervention is necessary.

II. THE DECISION BELOW CONFLICTS WITH OTHER COURTS OF APPEALS DECISIONS ON LANHAM ACT PREEMPTION.

As the petition demonstrates, the Second Circuit has broken from a long line of decisions of other courts of appeals that have refused to find contractual clauses prohibiting challenges to the validity of a mark ("no-challenge clauses") preempted by the Lanham Act. Pet. 18.

Respondents brush aside this conflict because those Lanham Act cases did not involve certification marks. Opp. 11. Respondents devote much of their statement of the case (*id.* at 2-3) to the uncontested point that certification marks signify a trait of the good or service (such as geographic origin or satisfaction of certain quality or material standards), rather than the identity of the supplier, seller, or source of the good or service (as do trademarks, service marks, and collective marks), and accordingly there are specific statutory rules regarding nondiscrimination in licensing and cancellation of certification marks. All these points were set forth in the petition, Pet. 3-5, but they are distinctions without a difference for preemption analysis. The central point (ignored by respondents as it was by the Second Circuit) is that *all* Lanham Act marks convey information

about a product or service to promote an efficient and competitive market in those products or services. Moreover, the declared purposes of the Lanham Act (applicable to *all* marks) are to protect intellectual property in the marks and to ensure that such marks cannot be used to confuse or deceive the public. *Id.* at 19-21; Br. of Underwriters Laboratories Inc. et al. 4-8 ("UL Br."). Thus, the "overriding federal policies" of the Lanham Act are not "significantly frustrated," *Lear*, 395 U.S. at 672-73, unless no-challenge clauses promote public confusion and deception regarding marks. To the contrary, such clauses promote the efficient use of marks and the accuracy of consumer information. There is no reason that a no-challenge clause should be valid in trademark licenses but not in certification mark licenses, and the Second Circuit was wrong to treat certification marks as more akin to patents (which are subject to a vastly different statutory regime with different purposes) than to trademarks.

1. The petition explains that the Second Circuit, beyond improperly diluting the standard for preemption, has misconceived the policies of the Lanham Act. Pet. 21-22. Respondents again have no answer to this analysis, but simply parrot the Second Circuit's position. Opp. 10-11. In fact, as demonstrated in the petition, the no-challenge provisions *promote* rather than thwart the policies of the statute. The Lanham Act protects the use of certain commercial symbols, known as "marks," in order to communicate important consumer information to the public. It seeks, in relevant part, "to prevent fraud and deception in such commerce by the use of reproductions, copies, counterfeits, or colorable imitations of registered marks." 15 U.S.C. § 1127. The Lanham Act protects "the public so that it may be confident that, in purchasing a product bearing a particular trademark . . . it will get the product which it asks for and wants to get." S. Rep. No. 79-1333 (1946), *reprinted in* 1946 U.S.C.C.S. 1274,

1274. This statutory objective applies to all covered marks, including certification marks.[1]

Licensees themselves benefit from diligent enforcement by mark owners. See 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 19:92.1 (4th ed. 2003). Good-faith licensees have an economic interest in the maintenance of a strong mark that retains public trust, which in turn requires strong quality control. Licensees necessarily compete with sellers of products with other marks, as well as other licensees who trade in the same certified product, and they depend on the mark owners' strong and evenhanded enforcement of marks and licensing conditions to ensure fair product competition. Accordingly, the interests of good-faith licensees are impaired if certification mark owners become crippled by unwarranted litigation costs. Nor is it in the interest of consumers. If licensee compliance with mark conditions is not enforced, or if certification marks become too costly for some mark holders, consumers ultimately suffer because they will be unable to receive critical product information, and will purchase products of diminished quality. See *United States* v. *10,510 Packaged Computer Towers,* 152 F. Supp. 2d 1189, 1197 (N.D. Cal. 2001) (customers rely on certification marks for quality and safety information). Moreover, the risks and costs associated with tactical licensee challenges to the validity of the mark reduces the incentives of mark owners to invest in the mark, thereby further harming consumers.

Rogue or disgruntled licensees, on the other hand, have an incentive to instigate unfounded, tactical litigation seeking cancellation of the mark, especially after they have been discovered by the mark owner engaging in potential

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[1] 15 U.S.C. § 1127; *see Jos. S. Cohen & Sons Co.* v. *Hearst Magazines, Inc.,* 220 F.2d 763, 765 (C.C.P.A. 1955) (certification marks prevent "likelihood of confusion" and protect "the predominant rights of the purchasing public."); *ECOS Elecs. Corp.* v. *Underwriters Labs.*, 743 F.2d 498, 503 (7th Cir. 1984).

infringement. As *amici* attest, protection from such litigation is especially critical for certification mark owners, who are often non-profit or state-run organizations with limited budgets to police and protect their marks. U.L. Br. 8; Br. of Florida Department of Citrus et al. 1-2, 10.

Both petitioner and United Laboratories (in a brief joined by many major certification mark holders and a group of licensees) have laid out in detail the economic case for no-challenge clauses; their central importance in the efficient policing of licensees; and their furtherance (not frustration) of the Lanham Act's objectives of rational, information-based product competition. Pet. 26-29; UL Br. 8-12.[2] Respondents answer with silence, precisely because such clauses are necessary to the efficient licensing of certification marks.

2. Respondents wrongly argue that, unless no-challenge clauses in licensing agreements are preempted, no certification mark could ever be challenged, citing a Trademark Trial and Appeal Board ("T.T.A.B.") decision that "only persons who have been refused certification after meeting the prescribed standards have standing to seek cancellation of a certification mark." Opp. 10 (citing *Am. Auto. Ass'n* v. *Nat'l Auto. Ass'n*, 127 U.S.P.Q. 423, 427-28 (T.T.A.B. 1960)). But many persons who are refused certification have never been granted a license; this standing test thus refutes respondents' unsupported claim that only licensees are in a position to challenge a mark. Second, the plain language of the Lanham Act provides that "any person who believes that he is or will be damaged . . . by the registration of a mark on the principal register" has standing

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[2] The non-discrimination requirement governing certification marks compels licensing to all persons who meet the certified product or service standards. 15 U.S.C. § 1064(5)(D). Contrary to respondents' claims, no-challenge clauses do not impede this requirement because those terms are offered on an equal basis to all licensees. The Lanham Act does not dictate the content of licensing terms for certification marks; it only mandates that those terms are offered on a non-discriminatory basis.

to seek cancellation of a certification mark on the various statutory grounds "at any time." 15 U.S.C. § 1064. Accordingly, suppliers of competitive products, wholesale purchasers of certified goods, or persons denied a license with an economic interest in challenging invalid marks may in appropriate circumstances have standing, and they have brought such challenges.[3] Indeed, one of the defendants below who sought to challenge the Commission's mark had never been a licensee. Pet. App. 71a. In all events, the Lanham Act provides the Federal Trade Commission with authority to seek the cancellation of certification marks, 15 U.S.C. § 1064, and licensees and nonlicensees are free to complain to the FTC. Respondents' overheated claim that no-challenge provisions "remov[e] . . . the IPC from the purview of the Lanham Act" is pure hyperbole. Opp. 11.

3. Respondents argue that the invalidity of no-challenge clauses in certification mark licensing agreements will not weaken the certification mark system or hobble certification mark owners with litigation costs.[4] Opp. 16. Respondents state that the certification mark system remains robust despite a 1989 decision by the T.T.A.B., part of the U.S. Patent and Trademark Office, in which the T.T.A.B. asserted in a footnote that licensee estoppel did not apply to certification marks. *Midwest Plastic Fabricators, Inc.* v. *Underwriters Labs., Inc.*, 12 U.S.P.Q.2d 1267, 1270 n.6 (T.T.A.B. 1989), *aff'd*, 906 F.2d 1568 (Fed. Cir. 1990). However, that decision

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[3] *See, e.g., In re Circuit Breaker Litig.*, 984 F. Supp. 1267, 1278 (C.D. Cal. 1997) (PBS as non-licensee); *In re Circuit Breaker Litig.*, No. CV 88-3012 CBM (C.D. Cal. Aug. 7, 1997) (PBS seeking cancellation); *Levy* v. *Kosher Overseers Ass'n*, 104 F.3d 38 (2d Cir. 1997); *Alflex Corp.* v. *Underwriters Labs. Inc.*, 914 F.2d 261 (9th Cir. 1990) (unpublished table decision), *available at* 1990 WL 129482; *ECOS Elecs. Corp.* v. *Underwriters Labs.*, 743 F.2d 498 (7th Cir. 1984).

[4] Ironically, as clearly demonstrated in this case, the litigation costs required to protect and enforce a certification mark can be quite substantial. *See* Opp. 17 ("The IPC has a $10 million annual budget and has spent more than $1 million prosecuting this case.").

did not establish a clear rule because on appeal, the Federal Circuit affirmed the decision on other grounds, explicitly disclaiming the T.T.A.B.'s conclusion and stating, "[w]e therefore . . . do not . . . reach the remaining issues: . . . whether the doctrine of licensee estoppel bars . . . [the] petition for cancellation." *Midwest Plastic Fabs., Inc.* v. *Underwriters Labs., Inc.*, 906 F.2d 1568, 1573 (Fed. Cir. 1990). Accordingly, until the Second Circuit's departure from precedent in this case, certification mark holders could rely on no-challenge provisions in their licenses.

III. RESPONDENTS' "PRACTICAL" OBJECTIONS TO REVIEW ARE INSUBSTANTIAL.

As a last resort, respondents also assert that "practical considerations" militate against review. None of these arguments provides any basis for denying certiorari.

1. Respondents fault petitioner for not making its preemption arguments before the Second Circuit, Opp. 11-12, but their position is ironic. There was no opportunity to do so because *respondents* (as cross-appellants below) had not raised a preemption challenge to the no-challenge clauses, nor had respondents argued for the diluted judicial balancing test implemented by the Second Circuit under *Lear*. Instead, as they admit, respondents premised their argument on state law, "urg[ing] the Second Circuit not to enforce the no challenge provision based on legal principles applicable to contracts of adhesion, containing terms that are unconscionable or against public policy." *Id.* at 8. They invoked *Lear* solely to argue that licensee estoppel was contrary to the policy of the Lanham Act, and hence unconscionable in a contract of adhesion. Resp. C.A. Br. 7-10 (Add. 3-5). Petitioner replied that no issue of licensee estoppel was presented similar to *Lear*, because here there were express contractual terms barring challenges to the mark. Pet'r C.A. Reply Br. 29-37 (Add. 8-14). Petitioner had no occasion to argue the standard for preemption when that issue had not been raised by respondents. The Second Circuit adopted its ad hoc *Lear*

balancing test analysis *sua sponte*, and petitioner cannot be faulted for not anticipating the Second Circuit's departure from this Court's established precedent. Once a lower court passes on an issue of federal law in conflict with this Court's precedents, that issue is ripe for this Court's review.[5]

2. Respondents' other prudential arguments are likewise unsound. First, it is irrelevant that "the parties have not had an opportunity to develop a complete record in the case" on the validity of petitioner's mark. Opp. 13. Such evidence has nothing to do with the pure question of preemption law presented by the petition. Second, there is no reason to delay review until remand, when a favorable decision would obviate the need for a trial on mark validity and thus preserve federal judicial resources.[6] Third, it is not the practice of this

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[5] *Cf. Raley* v. *Ohio*, 360 U.S. 423, 436 (1959) ("There can be no question as to the proper presentation of a federal claim when the highest state court passes on it."); Robert L. Stern et al., *Supreme Court Practice* § 3.19, at 185 (8th ed. 2002) (irrebuttable presumption that a federal issue decided below "was timely and properly raised."). Respondents also make the unfounded claim that petitioner is now arguing for a "different" test than it urged in its petition for rehearing in the Second Circuit. Opp. 12. But as is demonstrated by the very passage from the petition for rehearing that respondents quote, *id.*, that is the exact same test that petitioners are advocating before this Court: namely, that a state law contract right may be abrogated under the Lanham Act "only if the provision violates the public policy behind trademark law of preventing confusion to the public," not on spurious, unarticulated policies of "'free and open competition among producers and distributors of the certified product.'" Petition for En Banc Rehearing at 9,13, *Idaho Potato Comm'n* v. *M & M Produce Farms & Sales*, Nos. 02-7792 (L) & 02-7818 (XAP) (2d Cir. July 25, 2003). Nothing in the petition for rehearing endorsed the *ad hoc* judicial balancing test of the Second Circuit.

[6] Contrary to respondents' claims, this Court routinely reviews nonfinal decisions of lower federal courts where further proceedings below are irrelevant to the question presented (including dozens in the past term). *See, e.g.*, *City of Los Angeles* v. *David*, 123 S. Ct. 1895 (2003) (reviewing reversal of summary judgment); *Clackamas Gastro. Assocs., P.C.* v. *Wells*, 123 S. Ct. 1673 (2003) (same); *City of Cuyahoga Falls* v. *Buckeye Cmty. Hope Found.*, 538 U.S. 188 (2003) (same); *United States* v. *Navajo*

Court to await further appellate decisions when there is a stark conflict with decisions of this Court and other lower courts. Lastly, respondents' claim that "Congress, not this Court, is the appropriate body to remedy the situation" has no force. *Id.* at 18. If that were relevant, this Court would have no role in interpreting statutes. It has always been the special province and duty of the judiciary "to say what the law is." *Marbury* v. *Madison*, 5 U.S. (1 Cranch) 137, 177 (1803).

This case squarely presents a critical departure by the Second Circuit from this Court's conflict preemption precedent. The Second Circuit's decision weakens the certification mark system, and draws unfounded distinctions between different types of Lanham Act marks. Because infringers are now free to disavow their licensing agreements and seek to cancel the certification mark they had previously benefited from, mark owners will be inundated with legal challenges that they do not have the resources to contest. This Court's intervention is necessary to protect certification marks and the core policies of the Lanham Act.

CONCLUSION

For the foregoing reasons, and those stated in the petition, the petition should be granted.

Nation, 537 U.S. 488 (2003) (same); *Boeing Co.* v. *United States*, 537 U.S. 437 (2003) (same); *Borden Ranch P'ship* v. *United States Army Corps of Eng'rs*, 537 U.S. 99 (2002) (per curiam) (same); *see also Dastar Corp.* v. *Twentieth Century Fox Film Corp.*, 123 S. Ct. 2041 (2003) (reviewing partial affirmance and partial reversal of summary judgment); *Dow Chem. Co.* v. *Stephenson*, 123 S. Ct. 2161 (2003) (per curiam) (reviewing reversal of dismissal of case); *Inyo County* v. *Paiute-Shoshone Indians*, 123 S. Ct. 1887 (2003) (same); *Cook County* v. *United States ex rel. Chandler*, 538 U.S. 119 (2003) (same); *United States* v. *White Mt. Apache Tribe*, 537 U.S. 465 (2003) (same); *Meyer* v. *Holley*, 537 U.S. 280 (2003) (same); *Howsam* v. *Dean Witter Reynolds, Inc.*, 537 U.S. 79 (2002) (same); *Am. Ins. Ass'n* v. *Garamendi*, 123 S. Ct. 2374 (2003) (reviewing reversal of preliminary injunction); *Pharm. Research & Mfrs. of Am.* v. *Walsh*, 123 S. Ct. 1855 (2003) (plurality opinion) (same).

Respectfully submitted,

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ADDENDUM

02-7792(L)

02-7818(XAP)

United States Court of Appeals

FOR THE SECOND CIRCUIT

IDAHO POTATO COMMISSION,

Plaintiff-Appellant-Cross-Appellee,

—v.—

MAJESTIC PRODUCE CORP.,

Consolidated-Defendant-Counter-Claimant-Appellee,

M&M PRODUCE FARM & SALES,
doing business as M&M Produce,
MATTHEW J. ROGOWSKI and MARK A. ROGOWSKI,

Defendants-Counter-Claimants-Appellees-Cross-Appellants.

(*Caption continued on inside front cover*)

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF OF APPELLEES-CROSS-APPELLANTS

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Defendants,

MAJESTIC PRODUCE TRUCKING CORP.,
M&M PACKAGING, INC.,

Defendants-Appellees,

G&T TERMINAL PACKAGING, CO., INC.,

Intervenor-Plaintiff-Appellee.

* * * *

[7]**I.**

THE IPC'S BOILERPLATE REQUIREMENT THAT PROSPECTIVE LICENSEES WAIVE THE RIGHT TO CHALLENGE ITS CERTIFICATION MARKS BASED UPON ITS FUTURE UNLAWFUL CONDUCT IN EXCHANGE FOR THE RIGHT TO USE ITS CERTIFICATION MARKS PRESENTLY IS VOID AS A MATTER OF PUBLIC POLICY AND IS THEREFORE UNENFORCEABLE.

The IPC's licensing scheme, which prohibits the grant of a license unless a prospective licensee agrees to forever waive the right to challenge the validity of the IPC's certification marks, violates public policy underlying the Lanham Act. The only Court of Appeals to consider this issue has held that:

> There can be no Licensee Estoppel involving a certification mark because of the unique character of a certification mark and the basic difference in concept between a certification mark whose owner is obligated to certify the goods or services of anyone who meets and maintains certain standards and conditions and a trademark used through related companies whereby the trademark owner/licensor may choose the licensees that use its mark.

Midwest Plastic Fabricators Inc. v. Underwriters Laboratories, 12 U.S.P.Q.2d 1267, 1275, *aff'd*, 906 F.2d 1568 (Fed. Cir. 1990). The IPC must permit any entity that presents conforming goods – potatoes grown within the borders of Idaho – to use the IPC's Marks. (JA1298-JA1299; JA1300-JA1301.) Once potatoes have been demonstrated to meet the *single* certification standard for its Marks, namely [8] Idaho origin, the IPC is obligated to permit application of its Marks to those potatoes.

In passing the provisions of the Lanham Act addressing certification marks, Congress has made a policy determination that the owner of a certification mark *must* permit use of its mark on non-discriminatory terms by any entity presenting goods meeting the certification standards for its mark. This policy is undermined by the IPC's attempt to condition use of its certification marks upon a waiver of the right to challenge those marks in the future if the IPC violates its continuing Lanham Act obligations.

The fundamental distinction between certification marks and trademarks renders case law addressing the Doctrine of Licensee Estoppel in the trademark context inapplicable to certification marks. A certification mark owner is *required* under the Lanham Act to certify all goods that comply with the standard for the Mark and to continue to do so indefinitely. *See Midwest Plastic Fabricators*, 12 U.S.P.Q.2d at 1275, n.6; *see also In re Monsanto Co.*, 201 U.S.P.Q. 864, 870 (T.T.A.B. 1978) (explaining that Section 14(E)(4) of Lanham Act provides for cancellation of certification mark based upon owner's refusal to certify "goods or services of any person who meets and maintains the standards and conditions which such mark certifies"). A trademark owner, in contrast, is not under a statutory duty to permit anyone to use its trademark and may refuse to [9] allow anyone to use the mark. *See Midwest Plastic Fabricators*, 12 U.S.P.Q.2d at 1275, n.6.

The District Court noted during a July 14, 2000 hearing that, based upon public policy concerns, the Doctrine of Licensee Estoppel does not apply in the arena of patents, and raised the question of whether public policy also rendered application of Licensee Estoppel in the context of certification mark licensing inappropriate. (JA1058.) The Supreme Court has held that Licensee Estoppel does not preclude a licensee from challenging the validity of a patent because of the strong public interest in furthering free competition. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670, 89 S.Ct. 1902, 1911 (1969); *see*

also Warner-Jenkinson Co. v. Allied Chemical Corp., 567 F.2d 184, 187 (2d Cir. 1977); *American Sterilizer Co. v. Sybron Corp.*, 526 F.2d 542, 545-46 (3d Cir. 1975). In so holding the Supreme Court explained that "[l]icensees may often be the only individuals *with enough economic incentive to challenge* the patentability of an inventor's discovery." *Lear*, 395 U.S. at 670, 89 S. Ct. at 1911. (Emphasis added.)

The public policy concerns militating against application of Licensee Estoppel in the context of certification mark licensing differ only modestly from those governing in the realm of patents. As in the patent situation, persons desiring to use certification marks – i.e. certification mark licensees – are likely to be the only individuals or entities with an *"economic incentive to challenge"* the marks [10] subject to the licensing agreement. *See id.* By requiring all licensees to forever waive the right to challenge its Marks based upon its *future* conduct, the IPC is improperly insulating itself from any challenge to its Marks and is effectively evading enforcement of the Lanham Act. As conclusively demonstrated in connection with its motion for summary judgment, the historic IPC licensing scheme has permitted the IPC to engage in the most egregious violations of the Lanham Act provisions governing certification marks, but by reason of the standard "boilerplate" estoppel provision in its licensing agreements, continue to use its Marks without challenge. Through this contract of adhesion the IPC has obtained free reign to use its Marks in contravention of the Lanham Act without practical fear of a challenge to its illegal behavior.

Thus application of the Doctrine of Licensee Estoppel to certification marks undermines the fundamental goals of the Lanham Act and should therefore be declared void as against public policy. This Court should hold that the teaching of *Midwest Plastic Fabricators* is good law in this Circuit.

* * * *

02-7792(L)

02-7818(XAP)

United States Court of Appeals

FOR THE SECOND CIRCUIT

IDAHO POTATO COMMISSION,

Plaintiff-Appellant-Cross-Appellee,

—v.—

MAJESTIC PRODUCE CORP.,

Consolidated-Defendant-Counter-Claimant-Appellee,

M&M PRODUCE FARM & SALES,
doing business as M&M Produce,
MATTHEW J. ROGOWSKI and MARK A. ROGOWSKI,

Defendants-Counter-Claimants-Appellees-Cross-Appellants.

(*Caption continued on inside front cover*)

ON APPEAL FROM THE UNITED STATES
DISTRICT COURT FOR THE
SOUTHERN DISTRICT OF NEW YORK

REPLY BRIEF OF APPELLANT-CROSS-APPELLEE IDAHO POTATO COMMISSION

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JOHN DOE NO. 1-100, CHRISTINE RICHARDSON,
RITA STRUMPH, JOSEPH STRUMPH,
and GEORGE RICHARDSON,

Defendants,

MAJESTIC PRODUCE TRUCKING CORP.,
M&M PACKAGING, INC.,

Defendants-Appellees,

G&T TERMINAL PACKAGING, CO., INC.,

Intervenor-Plaintiff-Appellee.

* * * *

[29]

C. This Case Does Not Present The Issue Of Licensee Estoppel

The gravamen of Defendants' argument is that the concept of licensee estoppel, which is applied in trademark cases but not in patent cases, should not be applied in certification mark cases."[11] The fatal flaw in that argument is that there is [30] no issue of licensee estoppel in this case. The licensee estoppel concept was developed by courts so that, in instances in which a *license agreement is silent* concerning the licensee's right to challenge the mark (or patent), the courts nevertheless held that a trademark (or patent) licensee could not challenge the validity of its licensor's mark (or patent). *Pacific Supply Cooperative v. Farmers Union Central Exchange, Inc.*, 318 F.2d 894 (9th Cir. 1963). In this case, the parties entered into a contract in which the licensee (M&M) specifically agreed not to challenge the licensor's (IPC's) marks. In this situation, the issue is one of contract interpretation, as the District Court correctly noted in its August 26, 1998 opinion (the "1998 Opinion"). JA 952. Licensee estoppel is irrelevant.

[31] The License Agreement contains the following provisions:

> Licensee agrees that the [Idaho Marks] are valid registered certification marks owned by Licensor and the Licensor has the sole right therein subject to such licenses as may have been granted to control the use of such marks. . . Licensee agrees that it will not during the

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[11] Although a certification mark is a unique type of mark, it is nevertheless treated under the Lanham Act in the same way as a trademark. *See Levy v. Kosher Overseers Ass'n of America, Inc.*, 104 F.3d 38, 39 (2d Cir. 1997) ("certification marks are generally treated the same as trademarks for purposes of trademark law").

> term of the agreement, *or thereafter, attack the title or any rights of Licensor in and to the marks* . . . [emphasis added].

JA 1134-35. As a matter of contract law, agreements such as these are enforceable to bar a party from later challenging a mark or patent.

In *Heaton Distributing Co. v. Union Tank Car Co.*, 387 F.2d 477 (8th Cir. 1967), the defendant argued that the provision in its agreement with plaintiff that it would not contest the validity of any patent right, trade name or trademark was void as against public policy. The Eighth Circuit rejected the argument and rejected the defendant's efforts to challenge the marks. Similarly, in *Diversey Lever, Inc. v. Ecolab, Inc.*, 191 F.3d 1350, 1351 (Fed. Cir. 1999), the parties entered into a settlement agreement in which, *inter alia*, the defendant agreed that it would not "directly or indirectly aid, assist or participate in any action contesting the validity" of the patent at issue. When the defendant subsequently sought to invalidate the patent, the court noted that settlement agreements are interpreted [32] according to general principles of contract law and held that the defendant could not challenge the validity of the patent.

On pages 10-11 of the 1998 Opinion, the District Court referred to a number of other cases in which courts likewise enforced parties' agreements and precluded challenges to trademarks. The following is a quote from the 1998 Opinion:

> *MWS Wire Industries, Inc. v. California Fine Wire Co., Inc.*, 797 F.2d 799 (9th Cir. 1986) (finding that defendant could have challenged the validity of the contested trademark prior to entering into agreement but now is estopped from doing so); *Beer Nuts, Inc. v. King Nut Company*, 477 F.2d 326 (6th Cir.), *cert. denied*, 414 U.S. 858 (1973) (determining that King Nut Company is precluded from contesting the validity of a trademark due to contract); *E.F. Prichard Co. v. Consumers*

Brewing Co., 136 F.2d 512 (6th Cir. 1943), *cert. denied*, 321 U.S. 763 (1944) (holding that defendant is estopped from contesting plaintiff's right to name and mark); *Long John Silver's, Inc. v. Washington Franchise, Inc.*, 209 U.S.P.Q. 146 (E.D. Va. 1980) (holding that defendant was estopped from challenging the plaintiff's ownership of marks because the defendant acknowledged mark in franchise agreement). JA 961-62.

Still other cases are in accord. In *Two Men and a Truck/ International Inc. v. Two Men and a Truck/Kalamazoo, Inc.*, 949 F.Supp. 500 (W.D. Mich. 1996), the plaintiff was a franchisor of moving service business throughout the United States and the defendant was a franchisee of the plaintiff. As a result of the defendant's [33] breach of the agreement, plaintiff terminated the franchise relationship and then sued the defendant after it continued to use the plaintiff s name and mark. In the parties' agreement, the defendant acknowledged that the plaintiff owned the "Two Men and a Truck" name and mark. As a result of this provision, the court rejected the defendant's request for a declaratory judgment that the name and mark were invalid.

Defendants ignore contract law concepts and, instead, seek to frame the issue as one of licensee estoppel. Relying principally on a footnote in *Midwest Plastic Fabricators, Inc. v. Underwriters Laboratories, Inc.*, 12 U.S.P.Q.2d 1267 (T.T.A.B. 1989), Defendants argue that the concept of licensee estoppel should not apply to certification marks and that licensees should therefore have the right to challenge the validity of their licensor's mark. But this case is not a case of "licensee estoppel." As stated, the licensee estoppel concept was developed by courts so that, in instances in which a *license agreement is silent* concerning the licensee's right to challenge the mark (or patent), the courts nevertheless hold that a trademark (or patent) licensee could not challenge the validity of its licensor's mark (or patent). *Pacific Supply Cooperative v. Farmers Union Central Exchange, Inc.*, 318

F.2d 894 (9th Cir. 1963), is a perfect illustration of the application of licensee [34] estoppel. There, the agreement did not provide that the licensee could not challenge the mark or that the mark at issue was a valid one owned by the licensor. Nevertheless, the court held that the licensee, by mere fact of being a licensee, could not set up a claim adverse to the licensor.

Defendants also rely on *Lear v. Adkins*, 395 U.S. 653, 89 S. Ct. 1902, 23 L. Ed. 2d 610 (1969), but that decision is likewise irrelevant. In that well known case, the Supreme Court reversed earlier decisions and held that the concept of licensee estoppel would no longer be applied in patent cases. In *Lear*, however, there was no license agreement in which the licensee acknowledged the validity and ownership of the patent and agreed not to challenge it. Defendants place greatest reliance on *Midwest Plastics*. In that case as well, there were no specific contractual provisions in which the parties agreed that the mark at issue was valid, under the control of one of them and not subject to challenge by the other. Thus, the quote relied on by Defendants from footnote 6 in *Midwest Plastics* spoke to classic licensee estoppel, where there is no contract. Those statements have no relevance to a contractual obligation in which one party agrees not to challenge the rights of another.

[35] In another one of the cases relied on by Defendants, *Warner-Jenkinson Company v. Allied Chemical Corp.*, 567 F.2d 184 (2d Cir. 1977), this Court drew this very same distinction between actual contract terms and implied terms. In that case, the parties had entered into a settlement agreement under which the defendant licensed its patent technology to the plaintiff. When the plaintiff sued the defendant seeking declaratory relief of patent invalidity, the district court dismissed the lawsuit. Pursuant to *Lear*, this Court reversed and permitted the lawsuit to go forward. Significantly, however, the agreement in that case was silent

as to the plaintiff's right to bring a lawsuit. This Court specifically noted the following:

> If a settlement agreement contains an explicit prohibition on licensee suits during some future period . . . a court may feel that effect should be given to such provisions. However, the *Lear* decision militates against reading such provisions into a settlement agreement.

567 F.2d at 188. That is, according to this Court, *Lear* does not permit one to read into in a contract an implied prohibition against a licensee suing its licensor, but does permit the enforcement of an explicit contractual prohibition to that effect. [36] Here, where Defendants specifically agreed that they would not challenge the Idaho Marks, this explicit contractual prohibition should be enforced."[12]

As a simple matter of contract interpretation – not licensee estoppel – M&M is bound by the provisions in the contract that it entered into with the IPC that provided that the Idaho Marks are valid, belong to the IPC, and would not be challenged. The District Court properly analyzed the issue as one of contract law, as follows:

> It is true that both M&M and Hapco entered into licensing agreements with the IPC through which they acknowledged that certain of the Idaho Marks are 'valid, registered marks,' and also agreed that they 'will not during the term of the agreement, or at any time thereafter, attack the title or any rights' of the IPC in and to the relevant Idaho Marks." 1998 Opinion at 7 quoting *M&M Licensing Agreement* at ¶16 and ¶18.

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[12] The other case relied on by Defendants in support of their licensee estoppel argument is *American Sterilizer Co. v. Sybron Corp.*, 526 F.2d 542 (3d Cir. 1975). In that case, as in *Lear*, *Warner-Jenkinson* and *Midwest Plastics*, there was no explicit contractual provision in which the licensee agreed not to challenge the licensor's rights.

> A prohibition on certifier licensing would also be irreconcilable with the statutory scheme of the Lanham Act as a whole. . . It is difficult to see how the IPC could comply with these provisions – i.e. maintain control over the Idaho Marks, and insure that they are used only to certify potatoes grown in Idaho – without some form of licensing arrangement. Clearly, the Lanham Act cannot be said to prohibit [37] certifiers from licensing their marks. Instead, all that is required is that such licenses must be granted where the licensee's products meet the applicable standards of the certifier, an arrangement which has been terms 'a form of limited compulsory licensing.'
>
> In view of the fact that the Lanham Act does not prohibit licensing arrangements *per se*, the Court fails to see why the estoppel clauses in the contracts effecting such arrangements should not be enforced. Parties to a Lanham Act controversy may contract between themselves for any legal purpose. . . Here notwithstanding the Packers' assertions to the contrary, the licensing agreements at issue are obviously not unconscionable. Nor are they ambiguous. In clear language they set forth M&M and Hapco's agreement not to 'attack the title or any rights' of the IPC to the relevant Idaho Marks during the effective term of the agreements, *'or at any time thereafter.'* Case law reveals that this is *not even a close question*. While licensee estoppel may not survive the expiration of the contract where the contract itself is silent on the subject, courts have consistently enforced estoppel in circumstances directly analogous to this case." [Emphasis supplied by District Court].

JA 1144-45, *quoting from* 1998 Opinion at 9-10.[13]

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[13] The IPC recognizes that the District Court used the term "licensee estoppel." Obviously the term was used loosely and not in the same way as used by Defendants.

This Court and the District Court (three times) have already rejected the same argument that Defendants are now making once again. JA 1144 (top line). There is no reason that the result should be any different this time.

* * * *